

**REPORT OF THE AUDIT OF THE
CALDWELL COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

July 22, 2003



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
CALDWELL COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES

July 22, 2003

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2002 Taxes for Caldwell County Sheriff as of July 22, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,536,208 for the districts for 2002 taxes, retaining commissions of \$93,972 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,442,009 to the districts for 2002 Taxes. Taxes of \$3 are due to the districts from the Sheriff and refunds of \$14 are due to the Sheriff from the taxing districts.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Van Knight, Caldwell County Judge/Executive
Honorable Stan Hudson, Caldwell County Sheriff
Members of the Caldwell County Fiscal Court

Independent Auditor's Report

We have audited the Caldwell County Sheriff's Settlement - 2002 Taxes as of July 22, 2003. This tax settlement is the responsibility of the Caldwell County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Caldwell County Sheriff's taxes charged, credited, and paid as of July 22, 2003, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 6, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



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Finance and Administration Cabinet
Honorable Van Knight, Caldwell County Judge/Executive
Honorable Stan Hudson, Caldwell County Sheriff
Members of the Caldwell County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 6, 2003

CALDWELL COUNTY
STAN HUDSON, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES

July 22, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 277,325	\$ 403,865	\$ 962,147	\$ 383,008
Tangible Personal Property	55,685	66,918	164,632	175,266
Intangible Personal Property				28,497
Fire Protection	794			
Increases Through Exonerations	77	92	227	1,505
Franchise Corporation Taxes	33,160	42,383	102,221	
Additional Billings	73	104	255	139
Oil and Gas Property Taxes	369	523	1,279	508
Limestone, Sand, and Mineral Reserves	1,372	1,947	4,761	1,891
Penalties	2,153	3,092	7,405	3,141
Adjusted to Sheriff's Receipt	3	8	1	10
Gross Chargeable to Sheriff	<u>\$ 371,011</u>	<u>\$ 518,932</u>	<u>\$ 1,242,928</u>	<u>\$ 593,965</u>
<u>Credits</u>				
Exonerations	\$ 13,822	\$ 17,489	\$ 42,917	\$ 17,384
Discounts	4,677	6,601	15,767	8,789
Delinquents:				
Real Estate	4,205	6,055	14,589	5,793
Tangible Personal Property	81	98	240	108
Uncollected Franchise Corporation Taxes	<u>5,888</u>	<u>8,070</u>	<u>18,055</u>	
Total Credits	<u>\$ 28,673</u>	<u>\$ 38,313</u>	<u>\$ 91,568</u>	<u>\$ 32,074</u>
Taxes Collected	\$ 342,338	\$ 480,619	\$ 1,151,360	\$ 561,891
Less: Commissions *	<u>14,837</u>	<u>20,426</u>	<u>34,541</u>	<u>24,168</u>
Taxes Due	\$ 327,501	\$ 460,193	\$ 1,116,819	\$ 537,723
Taxes Paid	327,469	460,132	1,116,726	537,682
Refunds (Current and Prior Year)	<u>29</u>	<u>65</u>	<u>103</u>	<u>41</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 3</u>	<u>\$ (4)</u>	<u>\$ (10)</u>	<u>\$ 0</u>

The accompanying notes are an integral part of this financial statement.

CALDWELL COUNTY
STAN HUDSON, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES
July 22, 2003
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,374,848
3% on	\$	1,151,401

** Special Taxing Districts:

Hospital District	\$	(2)
Library District		(1)
Extension District		<u>(1)</u>
(Refunds Due Sheriff)	\$	<u><u>(4)</u></u>

CALDWELL COUNTY
NOTES TO FINANCIAL STATEMENTS

July 22, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of July 22, 2003, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

CALDWELL COUNTY
NOTES TO FINANCIAL STATEMENT
July 22, 2003
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 30, 2002 through April 22, 2003.

B. Oil Taxes

The real property tax assessments for oil were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 22, 2002 through April 22, 2003.

C. Limestone, Sand, and Gravel Reserve Taxes

The real property tax assessments for limestone, sand, and gravel reserves were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 21, 2002 through April 22, 2003.

Note 4. Interest Income

The Caldwell County Sheriff earned \$2,180 as interest income on 2002 taxes. As of November 6, 2003, the Sheriff owes \$45 in interest to the school district and \$26 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Caldwell County Sheriff collected \$11,583 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of November 6, 2003, the Sheriff is due \$100 in 10% add-on fees from his fee account.

Note 6. Advertising Costs And Fees

The Caldwell County Sheriff collected \$600 of advertising costs and \$600 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office. As of November 6, 2003, the Sheriff owes \$185 in advertising costs to the county and \$185 in advertising fees to his fee account.

COMMENT AND RECOMMENDATION

CALDWELL COUNTY
STAN HUDSON, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

As of July 22, 2003

Lacks Adequate Segregation Of Duties

Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. The Sheriff has primarily assigned one deputy to perform all of the accounting functions of the office. We recommend that the Sheriff periodically review this work in order to create compensating controls to offset this internal control weakness. Examples of compensating controls are: 1) comparing source documents to the receipts and disbursements ledgers and then to the monthly tax reports; 2) having bank deposits compared to the receipts ledger; and 3) comparing checks to monthly tax reports and claims before they are mailed.

Sheriff's Response:

We will comply.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Caldwell County Sheriff's Settlement - 2002 Taxes as of July 22, 2003, and have issued our report thereon dated November 6, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Caldwell County Sheriff's Settlement - 2002 Taxes as of July 22, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Caldwell County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition noted below is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 6, 2003

